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Facilities with a percentage of Medicaid days that exceeds the statewide mean less one standard deviation of the percentages of Medicaid days.

- g. The occupancy adjustment for operating and patient care costs shall not result in a reduction of more than 30 percent of the applicable class ceiling. The property cost and return on equity or use allowance components shall be adjusted proportionately. The proportionate adjustment for the property and return on equity or use allowance per diems shall be made by multiplying each of those two per diems by the fraction:

The sum of the operating cost per diem, adjusted for occupancy, plus the patient care cost per diem, adjusted for occupancy; divided by the sum of the unadjusted operating cost per diem plus the unadjusted patient care cost per diem.

The property cost component shall not be subject to this low occupancy adjustment if a facility is being reimbursed under FRVS.

8. Determine the statewide property cost per diem ceilings for periods April 1, 1983 to July 1, 1985 as per a. through h. below.
 - a. Calculate the per diem property cost for the array of newly constructed facilities by dividing the total property cost by the total patient days for each facility.
 - b. Calculate the statewide average occupancy for all facilities used in setting the patient care and operating ceilings. Calculate the median occupancy for the array of newly constructed facilities.
 - c. Calculate two occupancy-adjusted property per diems:

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(1) An average occupancy property per diem is calculated.

The average occupancy property per diem equals the newly constructed facility occupancy divided by the statewide average occupancy, times the newly constructed facility property per diem.

(2) A median occupancy property per diem for newly constructed facilities is calculated as follows:

The median occupancy property per diem equals the newly constructed facility occupancy, divided by the median of newly-constructed facility occupancies, times the newly constructed facility property per diem.

- d. Adjust the two occupancy-adjusted property per diems for the effects of construction cost inflation by multiplying each by the fraction: Florida Construction Cost Inflation Index at midpoint of prospective rate period, divided by the Florida Construction Cost Inflation Index at midpoint of provider's cost report period. The calculation of the Florida Construction Cost Inflation Index is displayed in Appendix B.
- e. Calculate the median and standard deviation of the distributions of average occupancy and median occupancy property per diems.
- f. The statewide property cost per diem ceiling for facilities that have more than 18 months operating experience shall be the median of the average occupancy property per diems plus one standard deviation.
- g. The statewide property per diem ceiling for facilities that have 18 or fewer months of operating experience shall be the median of the distribution of median occupancy property per diems plus one standard deviation. A facility which has more than 18 months operating

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experience shall be subject to a weighted average property ceiling at the addition of beds at 50 percent or more of the existing bed capacity, or the addition of 60 beds or more. A weighted average rate shall be computed, equal to the sum of:

- 1) Actual per diem costs of the original facility, limited by the lower property ceiling, multiplied by the ratio of its beds to total facility beds; and
- 2) Actual per diem costs of the addition, limited by the higher property ceiling, multiplied by the ratio of its beds to total facility beds.

This weighted average rate shall be effective for 18 months from the date the additional beds were put into service.

- h. Facilities that are not reimbursed based on FRVS shall be subject to the property cost ceilings calculated at July 1, 1985. New property cost ceilings shall not be calculated at subsequent rate semesters.
9. Determine the median inflated operating and patient care costs per diems for each of the four-classes and for the whole State.
10. For each of the per diems in 9. above, calculate the ratios for each of the four class medians to the State medians.
11. Divide individual facility operating cost per diems and patient care cost per diems that resulted from Step B.7. by the ratio calculated for the facility's class in Step 10.
12. Determine the statewide median for the per diems obtained in Step B.11.

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13. For each of the operating and patient care per diems, exclude the lower and upper 10 percent of the per diems of Step B.11. and calculate the standard deviation for the remaining 80 percent.
14. Establish the statewide cost based reimbursement ceiling for the operating cost per diem as the sum of the median plus one standard deviation and for the patient care cost per diem as the sum of the median plus 1.75 standard deviations that resulted from Steps B.12. and B.13., respectively.
15. Establish the cost based reimbursement ceilings for operating and patient care costs per diems for each class by multiplying the statewide ceilings times the ratios calculated for that class in Step B.10.
16. Effective July 1, 1996, except for only the January 1, 2000 rate semester for the patient care component, and the July 1, 2002 rate semester for the operating component, establish the target reimbursement for operating and patient care cost per diems for each provider by multiplying each provider's target reimbursement rate for operating and patient cost in Step B.16 from the previous rate semester, excluding incentives and the Medicaid Adjustment Rate (MAR), with the quantity:

$$\frac{\text{Florida Nursing Home Cost Inflation Index}}{1 + 1.4 \times \left(\frac{\text{Florida Nursing Home Cost Inflation Index at the midpoint of the prospective rate period} - 1}{\text{Florida Nursing Home Cost Inflation Index at the midpoint of the current rate period}} \right)}$$

In the above calculation the 1.4 shall be referred to as the inflation multiplier.

For the January 1, 2000 rate semester only, the patient care component inflation multiplier in the above equation shall be adjusted upward for each provider until this adjustment in conjunction with the adjustment in B.17. c. results in an estimated additional reimbursement in the patient care component per B. 18.

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This adjustment in the inflation multiplier shall not result in a patient care per diem rate that exceeds the patient care per diem costs adjusted for inflation in

Step B.6 or be less than a patient care per diem cost calculated using an inflation multiplier of 1.4.

For the July 1, 2002 rate semester only, the operating component inflation multiplier in the above equation shall be adjusted upward for each provider until this adjustment in conjunction with the adjustment in B.17. c. results in an estimated additional reimbursement for the operating component per B.18. The aggregate of these adjustments in the inflation multiplier shall not result in an operating per diem rate that exceeds the operating per diem costs adjusted for inflation in step B.6 or be less than an operating per diem cost calculated using an inflation multiplier of 1.4.

For the January 1, 2002 rate semester, there shall not be a target applied to the direct and indirect care subcomponents of the patient care per diem. For rate semesters subsequent to January 1, 2002, the indirect patient care subcomponent shall be limited to the target reimbursement described above, whereas the direct patient care subcomponent shall not be limited to the target reimbursement .

17. Establish the reimbursement ceilings for operating and patient care cost per diems for each class as the lower of:
 - a. The cost based class reimbursement ceiling determined in Step B.15.
 - b. For rate periods beginning July 1, 1996, except for only the January 1, 2000 rate semester for the patient care component, the class reimbursement ceiling as calculated in B.17.b., from the previous rate semester, inflated forward with 1.4 (inflation multiplier) times the rate of increase in the Florida Nursing Home Cost Inflation Index through a

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calculation similar to that given in Step B.16. No reimbursement ceiling can increase in excess of a 15 percent annual rate. For the January 1, 2002 rate semester, there shall not be a target applied to the direct and indirect care subcomponents of the patient care per diem. For rate semesters subsequent to January 1, 2002, the indirect patient care subcomponent shall be limited to the target reimbursement described above, whereas the direct patient care subcomponent shall not be limited to the target reimbursement .

- c. For the January 1, 2000 rate semester only, the 1.4 patient care component inflation multiplier shall be adjusted upward for each class ceiling until this adjustment in conjunction with the adjustment in B.16. results in an estimated additional reimbursement in the patient care component per B.18. The adjustment in the inflation multiplier shall not result in a patient care class ceiling that exceeds the class ceilings determined in Step B.15 or be less than the class ceiling calculated using an inflation multiplier of 1.4
- For the July 1, 2002 rate semester only, the operating component inflation multiplier in the above equation shall be adjusted upward for each provider until this adjustment in conjunction with the adjustment in B.16.results in an estimated additional reimbursement for the operating component per B. 18. This adjustment in the inflation multiplier shall not result in an operating class ceiling that exceeds the operating class ceiling determined in step B.15 or be less than the class ceiling calculated using an inflation multiplier of 1.4.

18. The adjustments made to the patient care inflation multiplier in Sections I. B.1, V.B.16 and B.17. of this plan shall be made only when the January 1, 2000 rates

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are initially established and shall not be subject to subsequent revision. These adjustments shall result in an estimated additional reimbursement in the patient care component of \$9,051,822 for the January 1, 2000 rate semester.

The adjustments made to the operating inflation multiplier in Sections I. B.1, V.B.16 and B.17. of this plan shall be made only when the July 1, 2002 rates are initially established and shall not be subject to subsequent revision. These adjustments shall result in an estimated additional reimbursement in the operating component of \$26,925,842 for the July 1, 2002 rate semester.

19. Establish the reimbursement ceilings for the operating and patient care cost per diems for the Size 1-100 bed "Central Florida Counties" and Size 101-500 beds "Central Florida Counties" classes as the arithmetic average of the reimbursement ceilings determined in Section V.B.17.
20. Compute the total cost-related per diem for a facility as the sum of:
 - a. The lower of the property cost per diem obtained in Step B.7. or the applicable statewide property cost per diem ceiling calculated in B.8., for facilities not reimbursed under FRVS. For those reimbursed under FRVS, substitute the FRVS rate calculated per Section E. below, which shall be the sum of the property tax (which excludes sales tax on lease payments) and insurance per diems plus the per diem calculated based on the indexed 80 percent asset value plus the ROE or use allowance per diem calculated on the indexed 20 percent asset value.
 - b. Return on equity per diem obtained in Step B.7.
 - c. Incentives for both the operating and patient care costs per diems obtained in Steps C. or D. below.

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- d. The lower of the operating cost per diem obtained in Step B.7, the operating target per diem obtained in Step B.16., or the applicable ceiling obtained in Step B.17.
- e. The lower of the patient care cost per diem obtained in Step B.7, the patient care target per diem obtained in Step B.16., or the applicable ceiling obtained in Step B.17.
- f. The lower of the indirect patient care cost per diem obtained in Step B.7, the indirect patient care target per diem obtained in Step B.16, or the applicable ceiling obtained in Step B.17.
- g. The Medicaid Adjustment Rate (MAR) add-on as described in F below, the Case-mix Adjustment add-on as described in G below, and the Direct Care Staffing Adjustment add-on as described in H below. For the January 1, 2002 rate semester and subsequent rate semesters, the case-mix adjustment add-on and the Direct Care Staffing Adjustment (DCSA) add-on are eliminated.
21. Establish the prospective per diem for a facility as the result of Step B.20.
- C. Quality of care and cost containment incentives for rate periods during April 1, 1983 through June 30, 1985.
1. To encourage high-quality care while containing costs, this plan provides the following:
- a) Providers who receive a "conditional" licensure rating shall receive no incentive for the duration of time that the conditional licensure rating is applicable.
- b) Providers that receive a "standard" licensure rating may be eligible for an incentive. For any period during which a provider has an operating

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cost per diem from Step B.7. below the class ceiling, an incentive of 33.33 percent of the difference between the class ceiling and the operating cost per diem from Step B.7 shall be used in computing the provider's prospective per diem rate in Step B.19.c. This incentive shall not be greater than 20 percent of the class ceiling amount.

2. Providers with a "superior" licensure rating may be eligible for an incentive, in either the operating cost or patient care cost area or both, for the period of time during which they have a superior licensure rating. The incentives shall be determined as follows:

- a) If the operating cost per diem from Step B.6 is below the class ceiling, an incentive of 66.67 percent of the difference between the class ceiling and the operating cost per diem from Step B.6 shall be used in computing the provider's reimbursement rate in Step B.19c. This incentive shall not be greater than 20 percent of the class ceiling.
- b) If the patient care cost per diem from Step B.6 is below the class ceiling, an incentive of 10 percent of the difference between the class ceiling and the patient care cost per diem from Step B.6 shall be used in computing the provider's reimbursement rate in Step B. 19c. This incentive shall not be greater than 5 percent of the class ceiling.

D. Quality of care and cost containment incentives for rate periods beginning on or after July 1, 1985 through June 30, 1996.

1. To encourage high-quality care while containing costs, this plan provides for the following incentive payments. Incentives shall be paid for the current rate semester period based on a weighted average of the incentive amounts calculated using the licensure ratings that were in effect in the rate semester period 1 year

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prior. For operating costs, the operating cost per diem shall be less than the class ceiling and licensure ratings other than conditional shall have been received. For patient care costs, the patient care cost per diem shall be less than the class ceiling and a superior licensure rating must have been received.

2. The calculation of the per diem incentive amounts are as follows:

- (a) Determine the number of days during the 6-month period 1 year prior to the rate semester for which the facility held each of the three possible licensure ratings: superior, standard, and conditional.

Example: For the rate semester January 1, 1986 through June 30, 1986, the 6-month period 1 year prior is January 1, 1985 to June 30, 1985. During that prior period, the provider's licensure ratings were:

<u>RATING</u>	<u>PERIOD</u>	<u>DAYS</u>
Superior	1/1/85 - 1/31/85	31
Conditional	2/1/85 - 3/31/85	59
Standard	4/1/85 - 6/30/85	<u>91</u>
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- (b) For the rate periods beginning on or after January 1, 1988, if the lower of the operating cost per diem from Step B.6 and the operating target per diem from Step B.16. is less than the class ceiling, calculate the positive difference. If the lower of the two per diems is greater than the ceiling, then skip c. through e. below.
- (c) Multiply the difference in (b) above by the product of .6667 times the proportion of days in the period 1 year prior that a superior licensure rating was held. Using the example in (a) above, this product would be: $(.6667) \times (31/181)$. For rate periods beginning July 1, 1995, multiply the

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difference in (b) above by the product of .64 times the proportion of days in the period 1 year prior that a superior licensure rating was held.

Using the example in (a) above, this product would be : (.64) x (31/181).

- (d) Multiply the difference in (b) above by the product of 1/3 times the proportion of days in the period 1 year prior that a standard licensure rating was held. Example: (.3333) x (91/181). For rate periods beginning July 1, 1995, multiply the difference in (b) above by the product of .32 times the proportion of days in the period 1 year prior that a standard licensure rating was held. Example: (.32) x (91/181).
- (e) Establish the weighted operating cost incentive per diem as the lesser of: the sum of the results of (c) and (d) above; or 20 percent of the class operating cost ceiling for rate periods prior to January 1, 1988, or 15 percent of the class operating reimbursement ceiling for rate periods beginning on or after January 1, 1988, or 10 percent of the class operating reimbursement ceiling for rate periods beginning on or after July 1, 1995.
- (f) For rate periods prior to January 1, 1988, if the patient care cost per diem from Step B.6 is less than the class ceiling, calculate the positive difference. If the patient care cost per diem is greater than the class ceiling, skip (g) and (h) below.
- (g) Multiply the difference in (f) above by the product of (.1) times the proportion of days in the period one year prior that a superior licensure rating was held. Example: (.1) x (31/181).
- (h) Establish the weighted patient care cost incentive as the lesser of: the result of (g) above; or 5 percent of the class patient care cost ceiling.

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(f) Establish the total incentive payment as the sum of (e) and (h), if applicable.

(j) An example of the complete calculation is shown here, based upon the following information:

- (1) Current rate semester period: January 1, 1986 to June 30, 1986;
Rate semester period 1 year prior:
January 1, 1985 to June 30, 1985;
- (2) Licensure ratings in effect during January 1, 1985 to June 30, 1985:

<u>RATING</u>	<u>PERIOD</u>	<u>DAYS</u>
Superior	1/1/85 - 1/31/85	31
Conditional	2/1/85 - 3/31/85	59
Standard	4/1/85 - 6/30/85	<u>91</u>
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- (3) The operating cost per diem is \$3.00 below the class ceiling.
- (4) The patient care cost per diem is \$10.00 below the class ceiling.

The incentive for the current rate semester period, January 1, 1986 - June 30, 1986 is:

RATING:	OPERATING	
Superior	$\$3.00 \times .6667 \times 31/181 =$	\$0.3426
Conditional	$N/A \times \quad \times 59/181 =$	N/A
Standard	$\$3.00 \times .3333 \times 91/181 =$.5027

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Total Operating Incentive		\$0.8453
RATING:	PATIENT CARE	
Superior	$\$10.00 \times .1 \times 31/181 =$	\$0.1713
Conditional	$N/A \times 59/181 =$	N/A
Standard	$N/A \times 91/181 =$	N/A
Total Patient Care Incentive		\$0.1713
Total Incentive		\$1.0166

This total incentive of \$1.0166 is added in the rate calculation in V.B.20.c.

- (k) For rate periods beginning on or after January 1, 1988, calculate each facility's reimbursement rate for patient care costs as described in V.B. 20.e. Multiply this per diem by .03 times the proportion of days in the rate period one year prior that a superior licensure rating was held.
- Example: $(.03) \times 31/181$. The result of this calculation will represent the quality of care incentive to which the provider is entitled.
- This incentive is to be included in the provider's total reimbursement rate in place of the incentive determined in V.D.2.(h).

- (l) For rate periods beginning on and after July 1, 1993, incentive payments shall be prorated based upon a facility's Medicaid utilization percentage, except as modified in (m) below. Facilities with 90% or greater Medicaid utilization shall receive 100% of their incentives. Facilities with 20% or less Medicaid utilization shall receive no incentives. Facilities between 20% and 90% Medicaid utilization shall have their incentives prorated by multiplying their incentives by the percentage calculated in the following formula:

[Medicaid Utilization % - 20%]

100 X

70%

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(m) For rate periods beginning July 1, 1995, facilities with 65% or less Medicaid utilization shall receive no operating incentives.

Facilities between 65% and 90% Medicaid utilization shall have their operating incentives prorated by multiplying their operating incentives by the percentage calculated in the following formula:

$$\frac{100 \times [\text{Medicaid Utilization \%} - 65\%]}{25\%}$$

- E. 1. FRVS for existing facilities at October 1, 1985.
 - a. Each existing facility, at October 1, 1985, shall have an FRVS rate established for capitalized tangible assets based upon the assets' acquisition costs at the last dates of acquisition prior to July 18, 1984. Facilities purchased after July 18, 1984 and not enrolled in the Medicaid program prior to the purchase or facilities constructed after July 18, 1984 and enrolled in the program shall have an FRVS rate established on the basis of the last acquisition costs prior to enrolling in the Medicaid program. The acquisition costs shall be determined from the most current depreciation schedule which shall be submitted by each provider. These acquisition costs, including the cost of capital improvements and additions subsequent to acquisition, shall be indexed forward to October 1, 1985 by a portion of the rate of increase in the Florida Construction Cost Inflation (FCCI) Index based on the Dodge Construction Index. The change in the FCCI Index from September, 1984 to March, 1985

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shall be used to project the FCCI Index for October 1, 1985, with no subsequent retroactive adjustment. The costs of land, buildings, equipment, and other capital items allowable for Medicaid reimbursement per CMS-PUB.15-1 (1993) such as construction loan interest expense capitalized, financing points paid, attorneys fees, and other amortized "soft" costs associated with financing or acquisition shall be included in determining allowable acquisition costs subject to indexing. Property taxes (which excludes sales tax on lease payments) and property insurance expenses shall not be included in the calculation of the FRVS rate, but shall be reimbursed prospectively, based on actual costs incurred and included in the total property rate. For FRVS rates calculated after October 1, 1985 but prior to July 1, 1991, the 6-month change in the FCCI Index based on the Dodge Construction Index shall be determined for adjusting FRVS rates. For rates effective on or after July 1, 1991, the FCCI Index based on the DRI/McGraw - Hill Health Care Costs, Consumer Price Index All Urban All Items South Region shall be used.

FRVS rates shall be adjusted for inflation on each January 1 and July 1, using the change in the FCCI Index for the most recent 6-month period published prior to the rate semester. FRVS rates shall be adjusted per subsections f. and j. below for changes in interest rates on capital debt instruments and for capital additions or improvements on each January 1 and July 1. (See Appendix B for computation of the index).

- b. A single FCCI Index, based upon the average of the Dodge Construction indices for the six cities in Florida for which an index is published, shall